



ANNUAL REPORT 1972

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CAPITAL LTD.

OFFICERS

John O. McCutcheon
Chairman of the Board

Clifford L. Larock, F.C.I.S.
President

Neil B. Ivory
Vice-President

Ian A. Soutar, C.F.A.
Vice-President

A. Scott Taylor, C.F.A.
Vice-President

Richard Haller
Secretary-Treasurer

Cyril F. Reid
Assistant Secretary-Treasurer

MANAGERS

Pembroke Management Ltd.
Montreal, Quebec

LISTED

Montreal Stock Exchange

DIRECTORS

J. G. S. Gammell, M.B.E., C.A.
Edinburgh, Scotland

R. A. Hammond-Chambers
Edinburgh, Scotland

John S. Lane, C.F.A.
Montreal, Quebec

Clifford L. Larock, F.C.I.S.
Montreal, Quebec

Donald B. McCaskill
Toronto, Ontario

John O. McCutcheon
Montreal, Quebec

A. Deane Nesbitt, O.B.E., D.F.C.
Montreal, Quebec

AUDITORS

Touche Ross & Co., Chartered Accountants
Montreal, Quebec

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company

TO OUR SHAREHOLDERS

REVIEW OF 1972

The consolidated financial statements of your company show that Shareholders' Equity at 31st December, 1972 was \$36.9 million, an increase of \$10.0 million or 37.1% over the previous year, while net asset value per common share increased 51.6% from \$7.54 to \$11.43. Net income for the year was \$425,240, up 18.7% over 1971. Good performances in the Canadian and United States stock markets, combined with the new directions in management policy reported to you last year, have produced the biggest yearly gain in assets in your company's history.

STRATEGY

Our overall objective is to maximize growth of the Shareholders' Equity while retaining a reasonable level of security. To accomplish this, we have set out a strategy to employ our resources, both capital and people, as effectively as possible. This strategy has three basic elements:—

1. GBC's own portfolio is being re-deployed in attractive situations in industries or areas of superior growth where major positions can be taken. Two substantial investments have already been made as described later in this report.
2. A diversified but growth-oriented portfolio of investments is held through Dominion-Scottish Investments Limited of which approximately 97% of the common shares is held by GBC. This portfolio is leveraged by the presence in Dominion-Scottish of \$3.0 million of 5% preference shares.
3. Through its wholly-owned subsidiary, Sutton Ventures Limited, your company participates in a small number of junior or start-up situations, with emphasis in areas of high technology. The situations selected may be private or public companies, and may be in Canada or the United States, but the common denominator is a potential for a multiplication of the investment where the venture proves successful.

GBC PORTFOLIO

The first major position was acquired during 1972, in Warrington Products Limited, in which GBC now has a 30% interest on a fully diluted basis. Warrington is a Toronto-based company which is growing rapidly in the consumer products field, in durables and in leisure products.

Management has chosen to adopt equity accounting with respect to the operations of Warrington in GBC's financial state-

ments and thus a portion of Warrington's earnings are included for its four month fiscal period ended 31st December, 1972. The investment in Warrington is carried in our accounts at an adjusted cost of \$1,736,800. Its market value as of 31st December, 1972 was \$3,326,666.

Towards the close of the year a total of 246,300 shares of Revelstoke Companies Ltd. were acquired. This holding represents 13.7% of the total number of Revelstoke common shares outstanding. Revelstoke has a well established position in Western Canada and operates over 100 retail outlets. Each store is combined with a lumber yard and offers a complete range of building materials, home improvement and home repair products. Revelstoke also produces concrete and has substantial lumber manufacturing operations. A young and dynamic management group assumed control of Revelstoke's operations approximately a year ago. We are most encouraged by the results this group has already achieved.

Other situations, in different sectors of the economy, are currently under investigation and management is ready to proceed as and when appropriate opportunities appear.

DOMINION-SCOTTISH INVESTMENTS LIMITED

The investment policy followed over the past year was one of full commitment of funds in a diversified group of Canadian and U.S. securities. Our investments are normally made in companies of moderate size whose performance records show an ability to grow faster than the economy.

In 1972 Shareholders' Equity increased from \$15.8 million to \$23.1 million, a gain of 46.2%. In this period the Toronto Stock Exchange Industrials and the Standard and Poor 500 Indices advanced 22.0% and 15.6% respectively.

SUTTON VENTURES LTD.

Over the twelve months ended 31st December, 1972, Shareholders' Equity in Sutton, using conservative valuation methods, increased to \$4,886,000, a gain of 29.6% over the total equity of \$3,769,000 reported by Sutton at 31st December, 1971.

DIRECTORS AND MANAGEMENT

The new and more dynamic approach to investment adopted by GBC in 1972 has made it apparent that Pembroke Management Ltd. should become more deeply involved in the operations of your company. To accomplish this, your Board decided to make

certain changes in GBC's management structure. John O. McCutcheon has become Chairman of the Board and Clifford L. Larock has assumed the office of President of the Company. Ian A. Soutar and A. Scott Taylor have been appointed as Vice-Presidents and Richard Haller and Cyril F. Reid have become Secretary-Treasurer and Assistant Secretary-Treasurer. Neil B. Ivory, a Vice-President since the incorporation of the company, will be nominated for election as a Director at the forthcoming Annual Meeting.

Changes have also been made in the subsidiary companies, Neil B. Ivory becoming a Vice-President of Dominion-Scottish and Ian A. Soutar the President of Sutton Ventures. The Board of Directors of Sutton Ventures has also been strengthened by the addition of Messrs. John O. McCutcheon and John S. Lane. Messrs. Larock, Ivory, Soutar, Taylor, Haller and Reid are all members of the Pembroke Management team.

OUTLOOK FOR 1973

The Canadian economy demonstrated renewed vigour in the last quarter of 1972. This trend has carried into 1973 under the powerful influence of the impressive strength in the U.S. economy. Increases in non-residential construction and capital goods expenditures are compensating for a decline in housing starts. Consumer spending remains strong and will receive further stimulus from the recent Budget, while a shift in emphasis, particularly towards automobiles, is offsetting reduced demand for durables related to housing.

The short-term outlook for the Canadian economy thus appears favourable but efforts to control inflation and reduce unemployment have been much less effective than in the U.S. The strength in the U.S. economy is expected to continue throughout 1973 and, under this influence, excessive inflationary pressures could develop in Canada towards the end of the year. Your management will be looking for the warning signals as the inevitable corrective measures could create an environment less favourable for equity investment in Canada.

On behalf of the Board

JOHN O. McCUTCHEON,
Chairman of the Board.

Montreal, Quebec
12th March, 1973.

GBC CAPITAL LTD.
and Subsidiary Companies

**CONSOLIDATED
STATEMENT OF INCOME AND
RETAINED EARNINGS**

for the Year Ended
31st December, 1972

	<u>1972</u>	<u>1971</u>
INCOME FROM INVESTMENTS:		
Securities in investment portfolios	\$ 852,937	\$634,571
Associated company (share of earnings—Note 4)	35,800	—
	<u>888,737</u>	<u>634,571</u>
Management expenses (Note 10)	216,762	136,399
Other expenses	95,256	31,571
Interest	75,638	39,423
	<u>387,656</u>	<u>207,393</u>
	501,081	427,178
Income and withholding taxes (Note 7)	74,855	(68,921)
	<u>575,936</u>	<u>358,257</u>
Minority interest	150,696	—
NET INCOME	425,240	358,257
Retained earnings at beginning of year	579,797	536,540
	<u>1,005,037</u>	<u>894,797</u>
Dividends:		
5¼% Preferred shares	315,000	315,000
Common shares	53,228	—
	<u>368,228</u>	<u>315,000</u>
RETAINED EARNINGS AT END OF YEAR	\$ 636,809	\$579,797
Net income per common share	<u><u>\$0.041</u></u>	<u><u>\$0.016</u></u>

AUDITORS' REPORT

To the Shareholders,
GBC Capital Ltd.

We have examined the consolidated statement of financial position of GBC Capital Ltd. (formerly Great Britain & Canada Investments Limited) and subsidiary companies as at 31st December, 1972 and the consolidated statement of income and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the consolidated financial position of the companies as at 31st December, 1972 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Que.
18th January, 1973.

Touche Ross & Co.
Chartered Accountants

GBC CAPITAL LTD.
and Subsidiary Companies

**CONSOLIDATED
STATEMENT OF
FINANCIAL POSITION**
as at 31st December, 1972

	<u>1972</u>	<u>1971</u>
INVESTMENTS:		
Securities in investment portfolios at market value (Note 3)	\$39,472,813	\$35,082,773
Associated company (Note 4)	1,736,800	—
	<u>41,209,613</u>	<u>35,082,773</u>
CURRENT ASSETS:		
Cash and short term deposits	365,123	4,803,735
Accounts receivable	388,597	373,656
Accrued income on investments	208,557	110,197
Income taxes recoverable	—	76,930
	<u>962,277</u>	<u>5,364,518</u>
CURRENT LIABILITIES:		
Bank loan	1,000,000	8,250,000
Preferred dividend payable	78,750	78,750
Accounts payable and accrued expenses	402,092	419,826
Income taxes payable	275,470	—
	<u>1,756,312</u>	<u>8,748,576</u>
NET CURRENT LIABILITIES	<u>(794,035)</u>	<u>(3,384,058)</u>
	40,415,578	31,698,715
MINORITY INTEREST	<u>3,523,851</u>	<u>4,789,366</u>
SHAREHOLDERS' EQUITY (Note 9)	<u>\$36,891,727</u>	<u>\$26,909,349</u>
REPRESENTED BY:		
Capital stock (Note 5)	\$21,968,574	\$22,341,238
Contributed surplus	1,325,310	1,325,310
Retained earnings	636,809	579,797
Surplus from changes in investments (Note 6)	4,247,792	798,296
Unrealized appreciation of investments (Note 3)	8,713,242	1,864,708
	<u>\$36,891,727</u>	<u>\$26,909,349</u>

On behalf of the Board:

J. O. McCUTCHEON, Director

C. L. LAROCK, Director

GBC CAPITAL LTD.
and Subsidiary Companies

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

31st December, 1972

Note 1. Change of Name — Alteration of Capital:

Supplementary Letters Patent were issued to the Company on 20th October, 1972 confirming:

- (a) The change of name from Great Britain & Canada Investments Limited to GBC Capital Ltd.
- (b) The change and subdivision, respectively, of the issued common shares of the par value of \$18 each to common shares without nominal or par value on the basis of 3 for 1.
- (c) The change of the unissued common shares of the par value of \$18 each into common shares without nominal or par value.
- (d) The increase of the authorized capital to 7,500,000 common shares without nominal or par value.

Note 2. Principles of Consolidation:

The consolidated financial statements include the accounts of Dominion-Scottish Investments Limited (97.02% owned) and Sutton Ventures Ltd. (100% owned) and give effect to the share of earnings attributable to the investment in the associated company acquired in 1972. (See Note 4.)

The income of the two subsidiaries has not been included in the consolidated statement of income and retained earnings for 1971 because these companies became subsidiaries only on 31st December, 1971.

**Note 3. Securities in Investment Portfolios at
Market Value:**

	<u>1972</u>	<u>1971</u>
Securities in investment portfolios at market value		
GBC Capital Ltd.	\$11,316,645	\$21,163,752
Dominion-Scottish Investments Limited	23,360,868	10,697,917
Sutton Ventures Ltd.	4,795,300	3,221,104
	<u>39,472,813</u>	<u>35,082,773</u>
Securities at average cost	30,103,106	32,741,024
	<u>9,369,707</u>	<u>2,341,749</u>
Amount allocated to minority interest	656,465	477,041
Balance included in Shareholders' Equity as unrealized appreciation of investments	<u>\$ 8,713,242</u>	<u>\$ 1,864,708</u>

Note 4. Associated Company:

The Company

- (a) Owns 400,000 common shares of Warrington Products Ltd., representing 43% of Warrington's outstanding common shares. The Company also owns warrants to subscribe at \$5.00 per share to 20,000 common shares of Warrington, exercisable on or before 31st December, 1977;
- (b) Has guaranteed \$1,000,000 principal amount of Warrington Notes; and
- (c) Has the right to convert \$200,000 principal amount of such Warrington Notes into common shares at \$6.00 per share.

The investment in Associated Company is carried at cost (\$1,701,000) adjusted by the proportionate amount of earnings attributable to such investment on a fully diluted basis (\$35,800).

The market value of the Company's investment in Warrington Products Ltd. is \$3,326,666.

Note 5. Capital Stock:

	<u>1972</u>		<u>1971</u>	
5¼% first cumulative redeemable preferred shares of the par value of \$50 each				
Authorized and issued—120,000 shares	\$ 6,000,000		\$ 6,000,000	
1% second non-cumulative redeemable preferred shares of the par value of \$2 each				
	<u>1972</u>	<u>1971</u>		
Authorized and issued at beginning of year	188,746 shs.	380,521 shs.	377,492	761,042
Redeemed or purchased for cancellation	188,746 shs.	191,775 shs.	377,492	383,550
Outstanding at end of year	<u>— shs.</u>	<u>188,746 shs.</u>	<u>—</u>	<u>377,492</u>
Common shares without nominal or par value				
Authorized	7,500,000 shs.	1,500,000 shs.		
Issued at beginning of year	898,143 shs.	898,143 shs.	16,166,574	16,166,574
Issued during year fol- lowing 3 for 1 split	1,796,286 shs.	— shs.	—	—
Issued at end of year	<u>2,694,429 shs.</u>	<u>898,143 shs.</u>	<u>16,166,574</u>	<u>16,166,574</u>
			<u>22,166,574</u>	<u>22,544,066</u>
Less: Shares held by a subsidiary at stated or par values				
2,414 second preferred			—	4,828
33,000 common			198,000	198,000
			<u>198,000</u>	<u>202,828</u>
			<u>\$21,968,574</u>	<u>\$22,341,238</u>

The first preferred shares are redeemable at the option of the Company at any time in whole or from time to time in part, on not less than 30 days' notice, at \$52.50 per share (in one restricted event at \$50 per share) plus accrued and unpaid dividends, if any, to the date of redemption. The Company may, at any time and from time to time, also purchase the whole or any part of such preferred shares in the open market at a price not exceeding the redemption price thereof plus costs of purchase.

Note 6. Surplus from Changes in Investments:

Balance at beginning of year	\$ 798,296	\$ —
Net gain on changes in investments (including loss on exchange 1972—\$10,925, 1971—\$1,198) and profit on 1% preferred shares purchased for cancellation 1971— \$1,737	3,864,282	798,296
Less: Provision for income taxes	<u>414,786</u>	<u>—</u>
	<u>3,449,496</u>	<u>798,296</u>
Balance at end of year	<u>\$4,247,792</u>	<u>\$798,296</u>

GBC CAPITAL LTD.
and Subsidiary Companies

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**
(Continued)

31st December, 1972

Note 7. Income Taxes:

The Companies' expenses exceed their taxable income from investments and consequently there is an income tax credit shown on the consolidated statement of income and retained earnings. The credit is after deducting taxes withheld at source of \$16,579.

The provision for income taxes of \$414,786 shown in surplus from changes in investments (Note 6) represents the tax related to the taxable gains from changes in investments during the year. The income taxes actually payable for the year amount to \$323,352 and represent the tax related to the gains from changes in investments, less the income tax credit of \$91,434 reflected in the consolidated statement of income and retained earnings.

Note 8. Statement of Source and Application of Funds:

A statement of source and application of funds has been omitted since it is deemed inappropriate for an investment company. The following statement showing changes in shareholders' equity has been substituted therefor.

Note 9. Changes in Shareholders' Equity:

	1972	1971
Shareholders' equity at beginning of year	\$26,909,349	\$21,726,494
Add: Net income for the year	425,240	358,257
Proceeds from investments sold	20,244,921	9,048,679
Less: Cost of investments sold	16,369,714	8,250,922
Net gain on changes in investments	3,875,207	797,757
Provision for income taxes on net gain from changes in investments	(414,786)	—
Profit on 1% preferred shares purchased for cancellation	—	1,737
Increase in unrealized appreciation of investments	6,848,534	4,927,680
	<u>10,734,195</u>	<u>6,085,431</u>
Deduct: Loss on exchange	10,925	1,198
Par value of 1% preferred shares redeemed and purchased for cancellation	372,664	383,550
Dividends: 5¼% preferred shares	315,000	315,000
Common shares	53,228	—
Preferred and common shares held by a subsidiary	—	202,828
	<u>751,817</u>	<u>902,576</u>
Increase for the year	<u>9,982,378</u>	<u>5,182,855</u>
Shareholders' equity at end of year	<u>\$36,891,727</u>	<u>\$26,909,349</u>

Note 10. Information Re Directors and Officers:

The Board of Directors consists of seven members whose aggregate remuneration from the Company (included in management expenses) amounted to \$8,793 in 1972 (1971—\$9,700) and \$8,596 from subsidiaries (1971—\$4,300). There are five officers of the Company, two of whom are also Directors. The Officers of the Company received remuneration of \$7,500 in 1972 and \$1,424 from subsidiaries.

Note 11. Foreign Currencies:

Transactions in foreign currencies during the year were recorded at the relative rates of exchange applicable on the dates of such transactions. Amounts in foreign currencies included in assets and liabilities have been shown in Canadian funds, converted at rates of exchange applicable on 31st December, 1972, any adjustment thereon being credited or charged, as the case may be, to surplus from changes in investments.

GBC CAPITAL LTD.

INVESTMENT PORTFOLIO

as at 31st December, 1972

PREFERRED STOCKS

	Number of Shares	Market Value
Investors Group, The, 5%, 1969 Series, Conv., of \$25 . . .	8,000	\$ 200,000
Power Corporation of Canada, Limited, 5%, 2nd, Series "A", Conv., of \$12	56,300	802,275
		<u>\$ 1,002,275</u>

COMMON STOCKS

BANKS AND FINANCE

Bank of Montreal	30,000	\$ 641,400
Canadian Imperial Bank of Commerce	10,000	307,500
Investors Group, The, Class "A"	20,000	220,000
Unicapital Corp.	20,000	316,012
Union Fidelity Corporation	10,666	269,349
		<u>\$ 1,754,261</u>

CONSUMER PRODUCTS

Sony Corporation, A.D.R.F.	10,000	\$ 589,538
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FOOD AND BEVERAGES

Dominion Dairies Limited	15,900	\$ 512,775
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FOREST PRODUCTS

Domtar Limited	20,000	\$ 365,000
Weldwood of Canada Limited	41,000	579,330
		<u>\$ 944,330</u>

METALS AND MINING

Anaconda Company	5,000	\$ 97,013
Dynasty Explorations Ltd.	40,800	312,120
Lornex Mining Corporation Ltd.	30,000	193,500
Yukon Consolidated Gold Corporation Limited, The	264,000	264,000
		<u>\$ 866,633</u>

PETROLEUM

Canadian Hydrocarbons Ltd.	30,000	\$ 371,400
Murphy Oil Corporation	5,000	313,425
Pennzoil Co.	5,000	133,081
		<u>\$ 817,906</u>

PRINTING AND PUBLISHING

Toronto Star Limited, Class "B"	10,000	\$ 710,000
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RETAILING

Revelstoke Companies Ltd.	246,300	\$ 1,908,825
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UTILITIES

Texas Eastern Transmission Corporation	10,000	\$ 604,463
Trans-Canada Pipe Lines Limited	10,500	462,000
		<u>\$ 1,066,463</u>

MISCELLANEOUS

McDonnell Douglas Corporation	21,218	\$ 733,639
Teledyne Canada Ltd.	100,000	410,000
		<u>\$ 1,143,639</u>

TOTAL VALUE OF INVESTMENT PORTFOLIO

\$11,316,645

DOMINION-SCOTTISH INVESTMENTS LIMITED

INVESTMENT PORTFOLIO

as at 31st December, 1972

BANKS AND FINANCE

	Number of Shares	Market Value
Bank of Montreal	20,000	\$ 427,600
MICC Investments Limited	20,000	690,000
Royal Bank of Canada, The	15,000	556,950
Scottish & York Holdings Limited	100,000	713,000
Toronto-Dominion Bank	13,000	448,500
		<u>\$ 2,836,050</u>

CHEMICALS

Du Pont of Canada Limited	30,000	\$ 930,000
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COMMUNICATIONS

Bell Telephone Company of Canada, The	20,000	\$ 890,000
IWC Communications Limited	100,000	400,000
		<u>\$ 1,290,000</u>

CONSUMER PRODUCTS

Berkey Photo, Inc.	20,000	\$ 440,387
T. G. Bright & Co., Limited	30,000	682,500
Hoover Company, The	20,000	736,300
Scott's Restaurants Co. Limited	35,000	787,500
		<u>\$ 2,646,687</u>

DATA PROCESSING

Moore Corporation, Limited	12,000	\$ 630,000
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FOREST PRODUCTS

Crows Nest Industries Limited	20,000	\$ 530,000
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MANUFACTURING

Deere & Company	20,000	\$ 910,425
Ivaco Industries Ltd.	30,000	765,000
Stanadyne Inc.	6,000	144,056
Toromont Industrial Holdings Ltd.	210,000	588,000
		<u>\$ 2,407,481</u>

METALS AND MINING

Falconbridge Copper Limited	20,000	\$ 230,000
Pine Point Mines Limited	15,000	382,500
		<u>\$ 612,500</u>

PETROLEUM

Bow Valley Industries Ltd.	10,000	\$ 440,000
Pennzoil Offshore Gas Operators, Class "B"	50,000	466,655
Standard Oil Company, The, Ohio	8,000	735,345
Williams Companies	20,000	1,014,900
Wynn Oil Company	10,000	291,038
		<u>\$ 2,947,938</u>

	Par Value or Number of Shares	Market Value
PRINTING AND PUBLISHING		
British American Bank Note Company Limited	15,000	\$ 221,250
Ronalds-Federated Limited	20,000	467,600
Sun Publishing Company Limited, Class "A"	25,000	1,200,000
		<u>\$ 1,888,850</u>
REAL ESTATE		
Alliance Building Corporation Limited	40,000	\$ 380,000
Fairview Corporation of Canada Limited, The	16,900	270,400
Headway Corporation Limited, 7½%, Conv. Debentures, 1992	\$100,000	110,000
Headway Corporation Limited	10,000	50,000
S. B. McLaughlin Associates Limited	20,000	347,600
Orlando Realty Corporation Limited, The	20,000	230,000
Sifton Properties Limited	30,000	232,500
TDRI Limited, 5½%, Conv., Participating Debentures, 1993	\$100,000	119,250
		<u>\$ 1,739,750</u>
RETAILING		
Peoples Department Stores Limited	180,000	\$ 4,095,000
Tonecraft Limited	90,000	630,000
		<u>\$ 4,725,000</u>
TRANSPORTATION		
Refrigerated Transport Co., Inc.	10,000	\$ 176,612
TOTAL VALUE OF INVESTMENT PORTFOLIO		<u><u>\$23,360,868</u></u>

SUTTON VENTURES LTD.

INVESTMENT PORTFOLIO

as at 31st December, 1972

	Par Value or Number of Shares	Market Value
DATA PROCESSING		
* Comma Corporation, Conv., Preferred, of \$5.	500	\$ 248,750
Multiple Access Limited	70,000	691,600
National Data Corporation	12,500	435,314
* Shared Medical Systems Corporation, Conv., Preferred, of \$1	20,000	398,000
Systems Dimensions Limited	50,000	1,000,000
		<u>\$ 2,773,664</u>
ELECTRONICS AND ELECTRICAL EQUIPMENT		
Rapid Data Systems & Equipment Ltd.	10,000	<u>\$ 163,800</u>
HEALTH CARE		
Concept, Inc.	15,000	\$ 216,412
* National Medical Care, Inc.	35,454	516,099
Survival Technology, Inc.	5,000	184,075
		<u>\$ 916,586</u>
PETROLEUM		
Wainoco Oil Ltd.	50,000	<u>\$ 362,500</u>
REAL ESTATE		
Headway Corporation Limited, 7½%, Conv. Debentures, 1992	\$300,000	<u>\$ 330,000</u>
TRANSPORTATION		
Midwestern Express, Inc., Class "A"	20,000	<u>\$ 248,750</u>
TOTAL VALUE OF INVESTMENT PORTFOLIO		<u>\$ 4,795,300</u>

*Restricted shares, at Directors' valuation.

